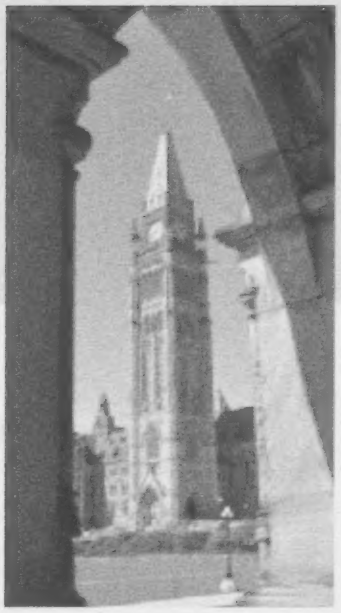


Report of the Auditor General of Canada to the Board of Directors of the Great Lakes Pilotage Authority

Independent Auditor's Report

Special Examination—2018

This report reproduces the special examination report that the Office of the Auditor General of Canada issued to the Great Lakes Pilotage Authority on 18 January 2018. The Office has not performed follow-up audit work on the matters raised in this reproduced report.

Office of the Auditor General of Canada

Bureau du vérificateur général du Canada

Report of the Auditor General of Canada to the Board of Directors of the Great Lakes Pilotage Authority

Independent Auditor's Report

Special Examination—2018

This report reproduces the special examination report that the Office of the Auditor General of Canada issued to the Great Lakes Pilotage Authority on 18 January 2018. The Office has not performed follow-up audit work on the matters raised in this reproduced report.

Office of the Auditor General of Canada

Bureau du vérificateur général du Canada

Special examination reports

Special examinations are a form of performance audit that is conducted within Crown corporations. The Office of the Auditor General of Canada audits most, but not all, Crown corporations.

The scope of special examinations is set out in the *Financial Administration Act*. A special examination considers whether a Crown corporation's systems and practices provide reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

More details about the audit objective, scope, approach, and sources of criteria are in About the Audit at the end of this report.

Ce document est également publié en français.

© Her Majesty the Queen in Right of Canada, as represented by the Auditor General of Canada, 2018.

Cat. No. FA3-132/2017E-PDF
ISBN 978-0-660-23921-7

Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada

18 January 2018

To the Board of Directors of the Great Lakes Pilotage Authority:

We have completed the special examination of the Great Lakes Pilotage Authority in accordance with the plan presented to the Audit Committee of the Board of Directors on 22 February 2017. As required by Section 139 of the *Financial Administration Act*, we are pleased to provide the attached final special examination report to the Board of Directors.

We will present this report for tabling in Parliament shortly after it has been made public by the Great Lakes Pilotage Authority.

I would like to take this opportunity to express my appreciation to the Board members, management, and the Corporation's staff for the excellent cooperation and assistance offered to us during the examination.

Yours sincerely,

N. Chartrand

Nathalie Chartrand, CPA, CA
Principal

Table of Contents

Introduction 1

Background 1

Focus of the audit 3

Findings, Recommendations, and Responses 4

Corporate management practices 4

There were significant deficiencies in Board of Directors oversight and appointments 4

Management of pilotage services 13

There was a significant deficiency in the Corporation's monitoring of the transits of Canadian ships subject to compulsory pilotage 13

Conclusion 21

About the Audit 22

List of Recommendations 26

Introduction

Background

Role and mandate

1. The Great Lakes Pilotage Authority (the Corporation) is a federal Crown corporation established in 1972. It reports to Parliament through the Minister of Transport and is one of four pilotage authorities established under the *Pilotage Act*.

2. The Corporation's mandate is to establish, operate, maintain, and administer in the interest of safety an efficient pilotage service within the Great Lakes region. The *Pilotage Act* grants a monopoly to the Corporation on pilotage services within all Canadian waters in the province of Quebec south of the northern entrance to St. Lambert Lock, as well as within all Canadian waters in and around the provinces of Ontario and Manitoba.

3. The Corporation is both a regulator and a service provider. The *Pilotage Act* gives the Corporation the power to make regulations subject to the approval of the **Governor in Council**. The Corporation is responsible, among other things, for

- establishing compulsory pilotage areas;
- prescribing the ships or classes of ships that are subject to compulsory pilotage;
- prescribing pilot qualifications, as well as classes of pilot licences and pilotage certificates that may be issued; and
- prescribing fair and reasonable tariffs of pilotage charges, at levels that permit the Corporation to operate on a self-sustaining financial basis.

Nature of business and operating environment

4. According to the *Great Lakes Pilotage Regulations*, pilotage is compulsory for ships of more than 1,500 **gross tonnage** and for ships that are not registered in Canada and are over 35 metres in length. Compulsory pilotage is the requirement that a ship be under the conduct of a licensed pilot (that is, a person who does not belong to a ship and has the conduct of it) or the holder of a pilotage certificate (that is, a regular member of a Canadian ship who was issued a certificate by the Corporation).

Governor in Council—The Governor General, acting on the advice of Cabinet, as the formal executive body that gives legal effect to those decisions of Cabinet that are to have the force of law.

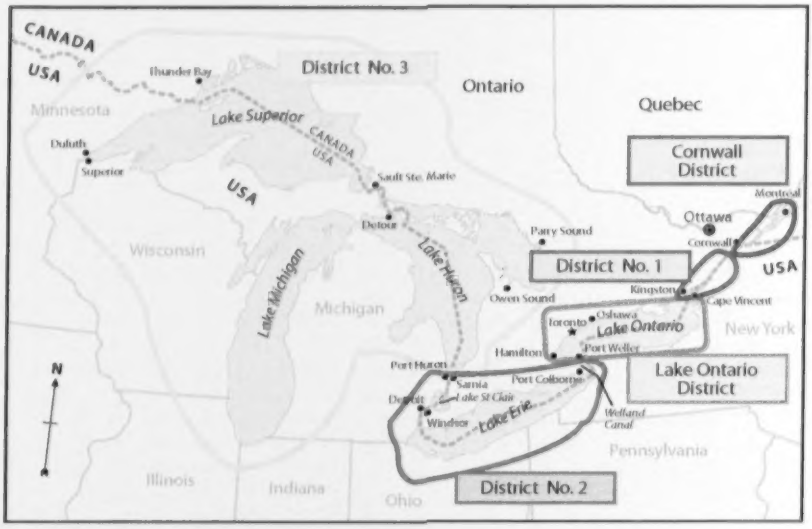
Gross tonnage—The internal volume of a vessel, including cargo holds and other areas.

5. Pilotage services are provided by licensed pilots employed by the Corporation through dispatch and contracted pilot boat services. As of 30 June 2017, the Corporation employed 51 full-time pilots, 8 apprentice pilots, 8 dispatchers, and 12 administrative personnel.

6. The Corporation also administers and monitors a pilotage certification system for Canadian officers, authorizing them to perform pilotage duties on Canadian ships.

7. The Corporation has established five compulsory pilotage areas (or districts) within the Great Lakes region (Exhibit 1) and a compulsory pilotage area in the navigable waters within the limits of the Port of Churchill, Manitoba. In most of the Great Lakes region, vessels are able to operate year-round. This is not the case in the St. Lawrence Seaway, which extends from Montréal to the middle of Lake Erie. From late December to late March, the Seaway is closed and the Corporation's pilots do not provide any pilotage services there.

Exhibit 1 Map of compulsory pilotage areas (districts) under the Corporation's responsibility (excluding the Port of Churchill, Manitoba)



Source: Adapted from a Great Lakes Pilotage Authority map

8. The *Great Lakes Pilotage Regulations* state that where Canadian waters are contiguous with waters of the United States, a ship subject to compulsory pilotage may be conducted by a person authorized by the United States. Because Canada shares jurisdiction with the United States for much of the St. Lawrence Seaway and the Great Lakes, ships that travel through the region may cross the international boundary repeatedly.

9. In 2015 and 2016, the Corporation had operating losses and an accumulated deficit of $1.6 million by the end of 2016 (Exhibit 2). However, under the *Pilotage Act*, the Corporation cannot receive additional payments under an **appropriation** by Parliament except in emergency situations. This means that the Corporation must fund its operations through its own revenue, such as by charging the shipping companies that use pilotage services through tariffs approved by the Governor in Council.

Exhibit 2 The Corporation had an accumulated deficit (in thousands of dollars)

Fiscal year	Revenues	Expenses	Operating income (loss)	Accumulated deficit, end of fiscal year
2016	25,888	26,742	(854)	(1,634)
2015	25,554	25,906	(352)	(780)
2014	26,602	25,266	1,336	(428)
2013	22,223	21,323	900	(1,764)

Source: Great Lakes Pilotage Authority annual reports, 2013–2016

Focus of the audit

10. Our objective for this audit was to determine whether the systems and practices we selected for examination at the Great Lakes Pilotage Authority were providing it with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively as required by section 138 of the *Financial Administration Act*.

11. In addition, section 139 of the *Financial Administration Act* requires that we state an opinion, with respect to the criteria established, whether there was reasonable assurance there were no significant deficiencies in the systems and practices examined. A significant deficiency is reported when the systems and practices examined did not meet the criteria established, resulting in a finding that the Corporation could be prevented from having reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

Appropriation—An authority provided by an Act of Parliament to pay money out of the Consolidated Revenue Fund, up to a maximum amount, for a specified activity during a fiscal year.

12. Based on our assessment of risks, we selected systems and practices in the following areas:

- corporate management practices, and
- management of pilotage services.

The selected systems and practices and the criteria used to assess them are found in the exhibits throughout the report.

13. More details about the audit objective, scope, approach, and sources of criteria are in **About the Audit** at the end of this report (see pages 22–25).

Findings, Recommendations, and Responses

Corporate management practices

There were significant deficiencies in Board of Directors oversight and appointments

Overall message ➔

14. Overall, we found significant deficiencies in corporate management practices. The Board of Directors (the Board) oversight of the Corporation was not sufficient because the Board did not properly monitor the Chief Executive Officer's travel and hospitality expenses, did not receive consistent and complete information on the implementation of some risk mitigation strategies, and did not ensure that the Corporation conducted internal audits. We also found delays in the appointment of Board members, which resulted in a significant deficiency that was out of the Corporation's control.

15. These findings matter because without complete information from management, the Board lacked support for its decision making. Without internal audits, the Corporation was unable to provide to the Board an objective view of corporate activities. And a possible break in the continuity of Board membership could lead to a loss of corporate memory and to ineffective Board oversight.

16. Our analysis supporting this finding discusses the following topics:

- Corporate governance
- Strategic planning, and performance measurement, monitoring, and reporting
- Risk management

Context

17. The Corporation is governed by a Board of Directors composed of seven members: the Chairperson, two retired pilots, two representatives of the shipping industry, and two public interest representatives. The Board is supported by an Audit Committee and a Governance and Human Resources Committee.

18. The Corporation had a directive on travel and hospitality expenditures, whose purpose was to ensure that expenditures were managed with prudence and probity, funds were used economically and efficiently, and reimbursement was provided only for reasonable expenses incurred while travelling on Corporation business.

19. Strategic planning and risk management are essential for the Corporation in working to achieve its objectives, which it has defined as

- providing economic, safe, reliable, and comprehensive marine pilotage and related services;
- achieving and maintaining financial self-sufficiency;
- being responsive to the government's environmental, social, and economic policies; and
- promoting the effective use of its resources in the interest of safe navigation.

20. Performance measurement, monitoring, and reporting enable the Corporation to demonstrate the extent to which it achieves its objectives and fulfills its mandate.

Recommendations

21. Our recommendations in this area of examination appear at paragraphs 25, 28, 29, 30, 33 and 38.

Analysis

22. **Corporate governance**. We found significant deficiencies in Board oversight and in Board appointments (a process over which the Corporation did not have control). We also found a weakness in Board independence (Exhibit 3).

Exhibit 3 Corporate governance—key findings and assessment

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Board independence	The Board functioned independently.	The Board functioned independently from management when making decisions. The Corporation established processes for Board members to declare real, potential, or apparent conflicts of interest. **Weakness** The Corporation could not demonstrate full compliance with its directive on conflicts of interest.	
Providing strategic direction	The Board provided strategic direction.	The Board actively participated in setting strategic direction. The strategic direction was aligned with the Corporation's mandate and governing legislation.	
Board oversight	The Board carried out its oversight role over the Corporation.	The Board structure reflected the nature and complexity of the Corporation's business and responsibilities. The Board received timely information from management to support the Board's oversight and monitoring of many of the Corporation's operations. The Board had ongoing communications with the responsible Minister, the shipping industry, the government, and the public. The Board periodically evaluated its performance and the performance of its committees. Results were reported to Board members. **Significant deficiency** The Board did not exercise proper oversight in the following areas: • **Travel, hospitality, conference, and event expenses.** The Audit Committee approved the Chief Executive Officer's expense claims without having all the information it needed. • **Internal audit.** The Corporation did not comply with the *Financial Administration Act* requirement to conduct internal audits. • **Risk mitigation reports.** The Board did not receive consistent and complete information on the implementation of three risk mitigation strategies (see paragraph 36).	

Legend—Assessment against the criteria

Met the criteria

Met the criteria, with improvement needed

Did not meet the criteria

Exhibit 3 Corporate governance—key findings and assessment (continued)

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Board appointments and competencies	The Board collectively had capacity and competencies to discharge its responsibilities.	To discharge its responsibilities, the Board had members with the requisite ability, skills, diversity, knowledge, and experience. The Board also had access to external expertise and training. The Board was proactive in communicating to the responsible Minister the need for director appointments. **Significant deficiency** There was a risk that five of the seven positions on the Board would be vacant as of March 2018.	⊖

Legend—Assessment against the criteria

- Met the criteria
- Met the criteria, with improvement needed
- ⊖ Did not meet the criteria

23. ***Weakness—Board independence***. The Corporation could not demonstrate that it fully complied with its directive on conflicts of interest. The directive required Board members to submit a confidential report to be analyzed by the Chief Financial Officer for real, apparent, or potential conflicts of interest. We examined declarations of conflict of interest made by Board members. We found that for four of the five declarations that contained a potential conflict of interest, the Corporation did not document any measures to mitigate the potential conflict. In addition, we noted that for some Board meetings, there were agenda items that could have given rise to conflicts of interest because the Board included representatives of the shipping industry (the Corporation's customers) and pilots who had retired from the Corporation. Although declaring conflicts of interest was the first item on the agenda of each Board or Board committee meeting, we found that meeting minutes recorded no declarations of conflict of interest by Board members.

24. This weakness matters because there was a risk of real, potential, or apparent conflicts of interest when the Board discussed topics such as amendments to tariffs and collective bargaining.

25. **Recommendation**. The Corporation should adopt a consistent approach for declaring conflicts of interest and ensure that it properly documents the actions taken to manage these conflicts.

The Corporation's response. *Agreed. The Board members of the Corporation will continue to submit written declarations annually. Starting in 2018, based on the declarations by individual Board members, an assessment will be made to identify real, potential, and apparent*

conflicts of interest for various matters. The Governance and Human Resources Committee and the Chair of the Board will review these assessments to determine the appropriate action to take (such as abstaining from voting or recusing from the discussion) for the matter in question. These assessments will be reviewed prior to each Board and Committee meeting.

26. ***Significant deficiency—Board oversight***. The Board did not exercise proper oversight in the following areas:

- **Travel, hospitality, conference, and event expenses.** The Audit Committee was responsible for approving the Chief Executive Officer's expense claims for travel, hospitality, conferences, and events. While the Committee received claims and related documentation, it did not receive confirmation that expenses were in compliance with the Corporation's directive on travel and hospitality expenditures. Therefore, it could not make an informed decision for the approval of expenses incurred. We examined 10 expense claims submitted by the Chief Executive Officer for the period from January 2016 to February 2017. For 6 of those claims, we found items for which there was insufficient documentation to conclude on whether they were in compliance with the directive. Examples included expenses reimbursed for amounts exceeding the set allowance or the pre-approved amount, and expenses reimbursed without sufficient documentation to justify the expense incurred.

  In addition, we noted that the Corporation did not address all concerns related to travel and hospitality expenses that we had raised with the Audit Committee following previous annual financial audits. One concern was insufficient documentation to determine whether some executive travel and hospitality expenses were reasonable and job-related. Another concern was the reimbursement of spousal expenses, which was permitted by the Corporation but did not ensure the sound management of public funds. In the course of this special examination, we noted reimbursement of at least $11,000 for spousal expenses for the period from January 2016 to February 2017. In addition to the 10 claims related to the Chief Executive Officer noted above, we tested 5 other claims related to management and Board members. In total, for 7 of the 15 tested claims, we found the same expense documentation issue that we had previously reported following annual financial audits.

- **Internal audit**. We found that the Corporation did not conduct internal audits as required by the *Financial Administration Act*. The Corporation had not conducted an internal audit since November 2015. Although the Audit Committee approved management's recommendation not to conduct internal audits in 2016 and 2017, the Corporation did not seek approval from the Governor in Council, as required by the Act.

- **Risk mitigation reports**. The Board did not receive consistent and complete information on the implementation of three risk mitigation strategies, which related to the monitoring of certificate holders and of the transits of Canadian vessels, and to the performance management of pilots (see paragraph 36).

27. This significant deficiency matters because the board of a public-sector organization is expected to exercise proper oversight of travel, hospitality, conference, and event expenses to ensure the sound management of public funds. In addition, an internal audit provides a professional, independent assessment of corporate management practices. Furthermore, the Board lacked information on three risk mitigation strategies.

28. **Recommendation**. The Corporation should ensure that the Audit Committee has the necessary information and supporting analysis to approve and perform its oversight role on the Chief Executive Officer's travel, hospitality, conference, and event expenses.

The Corporation's response. *Agreed. Starting in 2018, the management of the Corporation will enhance its current process by providing the Audit Committee with some additional tools to assist in approving the Chief Executive Officer's travel and hospitality expenditures. The focus will be on providing documented justifications, as needed, to support compliance with the Corporation's directive on travel and hospitality expenditures.*

29. **Recommendation**. The Corporation should update its directive on travel and hospitality expenditures to address the concern raised related to spousal expenses and should strengthen its control and documentation procedures for the management of travel and hospitality expenditures.

The Corporation's response. *Agreed. In early 2018, the Corporation will update its directive on travel and hospitality expenditures to properly reflect its commitment to the sound management of public funds. Starting in 2018, the Corporation will implement some additional tools to strengthen its controls for management's travel and hospitality and its documentation for justifying management's travel and hospitality expenditures.*

30. **Recommendation**. The Corporation should comply with the requirements of the *Financial Administration Act* to conduct internal audits.

The Corporation's response. *Agreed. The Corporation has resolved this oversight, as an internal audit is planned to start in November 2017 with a final report to be presented to the Audit Committee in February 2018.*

31. ***Significant deficiency—Board appointments and competencies.*** There were seven positions on the Board. Of these, one had been vacant since March 2016, and two were held by Board members after their terms had expired, one (the Chair of the Audit Committee) in December 2015 and the other in August 2017. The terms of two other members were to expire by March 2018. Appointments of Board members are the responsibility of the Minister of Transport and the Governor in Council and, therefore, are outside the control of the Corporation. Despite the Board's proactive approach to communicating its needs to the Minister, there was a risk that five of the seven positions on the Board would be vacant as of March 2018.

32. This significant deficiency matters because if many incumbent Board members were to be replaced within a single year, continuity would be affected, thus putting at risk the Board's ability to exercise effective oversight. Also, achieving quorum can be more difficult if the number of Board members in office decreases.

33. **Recommendation.** The Corporation should continue to engage with the Minister of Transport on the need for sufficient and timely appointments to the Board, continue to provide the Minister with profiles of potential candidates, and reinforce the need for staggered terms of office.

The Corporation's response. *Agreed. The Corporation will continue to engage with the Minister of Transport in a manner that is consistent with the new process established by the government for Governor in Council appointments. The Corporation will also continue to engage with the Minister on the need for sufficient and timely appointments to the Board and assist in the process to find potential candidates with the skill sets needed for an effective Board.*

Analysis

34. **Strategic planning, and performance measurement, monitoring, and reporting.** We found that the Corporation had good systems and practices in place for strategic planning, and for performance measurement, monitoring, and reporting (Exhibit 4).

Exhibit 4 Strategic planning, and performance measurement, monitoring, and reporting—key findings and assessment

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Strategic planning processes	The Corporation had a framework to define its strategic plan and objectives.	The Corporation had a comprehensive strategic planning process, including a strategic planning exercise every two years, with the participation of the Board. The strategic plan was incorporated in the Corporate Plan. The Corporation established measurable strategic objectives, which were aligned with the mandate. The Corporation identified accountabilities for the implementation of its Corporate Plan.	✓
Performance measurement	The Corporation established performance measures in support of achieving strategic objectives.	The Corporation established performance measures (key performance indicators and targets) to assess ongoing progress in achieving strategic objectives.	✓
Performance monitoring and reporting	The Corporation monitored and reported on progress in achieving its strategic objectives.	The Corporation had a process in place for measuring and reporting on its performance. The Corporation reported on its performance internally to senior management and the Board, and externally through its annual report.	✓

Legend—Assessment against the criteria

✓ Met the criteria

! Met the criteria, with improvement needed

– Did not meet the criteria

Analysis

35. **Risk management.** We found weaknesses in the mitigation, monitoring, and reporting of risks (Exhibit 5).

Exhibit 5 Risk management—key findings and assessment

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Risk identification and assessment	The Corporation identified and assessed risks to achieving strategic objectives.	The Corporation identified its corporate and operational risks, which it assessed according to their likelihood of occurrence and their potential impact.	✓
Risk mitigation	The Corporation defined and implemented risk responses.	The Corporation determined mitigation strategies for each of its identified risks. **Weakness** The Corporation had not fully implemented its planned risk mitigation strategies for the monitoring of certificate holders and of the transits of Canadian vessels, and for the performance management of pilots.	!
Risk monitoring and reporting	The Corporation monitored the implementation of risk mitigation measures.	The Corporation monitored and reported on its progress in implementing some of its risk mitigation strategies. **Weakness** The Board did not receive consistent and complete information on the implementation of established risk mitigation strategies for the monitoring of certificate holders and of transits of Canadian vessels, and for the performance management of pilots.	!

Legend—Assessment against the criteria

✓ Met the criteria

! Met the criteria, with improvement needed

– Did not meet the criteria

36. ***Weaknesses—Risk mitigation, and risk monitoring and reporting.*** The Corporation had not fully implemented its planned risk mitigation strategies for the monitoring of certificate holders and of the transits of Canadian vessels, and for the performance management of pilots (see paragraphs 53, 56, and 59). In addition, the Board did not receive consistent and complete information on the implementation of these established risk mitigation strategies. In one case, the Board was not informed that the monitoring of certificate holders was not up to date. In another, it was not informed that the monitoring of Canadian vessel transits had not been performed at the planned frequency. Finally, except for information about the simulator training taken by the Corporation's pilots, the Board had not received any other information on the performance evaluation of pilots.

37. These weaknesses matter because mitigation strategies address risks that have been identified and need to be managed. Reporting on mitigation strategies helps the Board to monitor the achievement of its objectives.

38. **Recommendation**. The Corporation should report to the Board on the implementation of all mitigation strategies associated with the Corporation's identified corporate and operational risks.

The Corporation's response. *Agreed. Starting in 2018, the Corporation will enhance its reporting to the Board to ensure that the implementation status of all mitigation strategies associated with the identified corporate and operational risks are captured in a consistent and standardized manner.*

Management of pilotage services

There was a significant deficiency in the Corporation's monitoring of the transits of Canadian ships subject to compulsory pilotage

Overall message ➔

39. Overall, we found a significant deficiency in the Corporation's monitoring of the transits of Canadian ships subject to compulsory pilotage in the Great Lakes region, because it could not justify whether the monitoring it performed was effective to mitigate the safety risks. We also found weaknesses in the management of pilotage services. The Corporation did not regularly review the compulsory pilotage areas and ship classes subject to compulsory pilotage, it was not up to date in the monitoring of certificate holders, and it did not fully manage the performance of pilots according to its directive on pilot quality assurance.

40. These findings matter because they affect the Corporation's ability to deliver on its mandate, which includes ensuring the safe passage of ships subject to compulsory pilotage in areas under the Corporation's responsibility in order to reduce the risk of marine incidents and environmental damage.

41. Our analysis supporting this finding discusses the following topic:

- Planning, delivery, and monitoring and reporting of pilotage services

Context

42. Our 2008 special examination report on the Great Lakes Pilotage Authority identified a significant deficiency in the long-standing practice of exempting Canadian ships from compulsory pilotage. The report noted that the Corporation did not have an effective mechanism that provided the Corporation with reasonable assurance that Canadian officers had the necessary competencies and qualifications to ensure the safe passage of ships in compulsory pilotage areas.

43. In response, the *Great Lakes Pilotage Regulations* were amended in 2011, introducing a requirement that all Canadian officers who intended to perform pilotage duties in the Great Lakes hold a valid pilotage certificate issued by the Corporation. The amended Regulations provided a transition period from 1 July 2011 to 31 December 2012. They also included a provision that exempted Canadian officers who applied by the end of the transition period from passing an examination if the officers met the Regulations' requirements, which included experience and service in the conduct of Canadian ships.

44. The Corporation issued 462 certificates to Canadian officers in March 2013 under the provision. A certificate holder needed to maintain requirements set out in the Regulations concerning medical fitness to perform pilotage duties, qualifications, and navigation experience in the compulsory pilotage area for which the certificate was issued. The certificate was cancelled if the holder ceased to fulfill these requirements (Exhibit 6).

45. The Corporation is also responsible for designating compulsory pilotage areas. A recommendation by the Canadian Transportation Agency, endorsed by the Minister of Transport, calls for the Corporation to conduct reviews every five years to assess changes in factors and circumstances in compulsory pilotage areas. Designations have not changed since the *Pilotage Act* came into force in 1972, when all areas in the Great Lakes region were designated areas of compulsory pilotage.

46. The Corporation prescribed which ships are subject to compulsory pilotage. The most recent amendment to the *Great Lakes Pilotage Regulations* on this matter came into force in 2009. It raised the tonnage requirement for Canadian ships subject to compulsory pilotage and

prescribed the size of arrangements of ships (for example, tugs pushing or towing barges) subject to compulsory pilotage.

47. The Corporation manages pilots' performance through a pilot quality assurance process, which assesses a pilot's competence and quality of service.

Exhibit 6 The Corporation had 318 active pilotage certificates as of 30 June 2017

Pilotage certificates	
Category	**Active (inactive) certificates**
Issued in March 2013 under a *Great Lakes Pilotage Regulations* exemption provision*	462
Issued after the exemption provision period	5
Cancelled**	(127)
Suspended**	(18)
Deceased certificate holders	(4)
Active pilotage certificates as of 30 June 2017	**318**

* In 2011, the Regulations were amended to include, among others, a provision that exempted Canadian officers who applied before 1 January 2013 from passing an examination if they met the Regulations' requirements, which included experience and service in the conduct of Canadian ships.

** The Corporation may suspend a certificate pending the holder's demonstration of meeting the regulatory requirements for maintaining qualifications. If the holder cannot demonstrate that the requirements were met, the certificate is cancelled.

Source: Great Lakes Pilotage Authority

Recommendations

48. Our recommendations in this area of examination appear at paragraphs 52, 55, 58 and 61.

Analysis

49. **Planning, delivery, and monitoring and reporting of pilotage services.** We found a significant deficiency in the process for monitoring the transits of Canadian ships in the Great Lakes region. We also found weaknesses in the designation of areas and ship classes subject to compulsory pilotage, in the process for monitoring certificate holders, and in performance management of pilots (Exhibit 7).

Exhibit 7 Planning, delivery, and monitoring and reporting of pilotage services

Systems and practices	Key findings	Assessment against the criteria
Criterion: The Corporation defined operational plans that were aligned with strategic plans and its mandate.		
Operational planning	Under the objectives set out in their 2017 performance agreements, the Chief Executive Officer, Chief Financial Officer, and Director of Operations each were given responsibility for putting the 2017–21 strategic objectives into operation. Operational objectives set out in the performance agreements took into account operational risks and stakeholders' needs. Performance agreements contained sufficient details to guide management's actions, together with a timeline for completing certain actions. The Corporation had detailed budgets for operating expenses, revenues, and administrative expenses.	✓
Pilot resource planning	The Corporation had a resource planning process in place to assess the number of pilots needed. The 2016 analysis of workforce needs was aligned with the target of assignments per pilot, established in the 2017–21 Corporate Plan. Following that analysis, the Corporation hired seven apprentice pilots.	✓
Designation of areas and vessel classes subject to compulsory pilotage	The Corporation monitored the number and nature of incidents that occurred on ships subject to compulsory pilotage during the 2016 navigation season and reported on those incidents to the Board. **Weakness** The Corporation did not review the compulsory pilotage areas every five years. It had not reviewed the vessel classes subject to compulsory pilotage since 2007.	!
Processes for setting and updating tariffs of pilotage charges and consultation with stakeholders	For the tariff increases that came into effect in June 2017, the Corporation used a forecasting model to analyze whether a change was needed to help it attain financial self-sufficiency. The Corporation expected that the increases would generate an operational surplus in 2017. As of 30 June 2017, the Corporation was still forecasting a surplus for 2017. The 2017 tariff increases were part of the strategies adopted in the 2017–21 Corporate Plan to eliminate the Corporation's accumulated deficit by the end of 2019. The Corporation consulted stakeholders before adopting the 2017 tariff increases.	✓

Legend—Assessment against the criteria

✓ Met the criteria

! Met the criteria, with improvement needed

– Did not meet the criteria

Exhibit 7 Planning, delivery, and monitoring and reporting of pilotage services (continued)

Systems and practices	Key findings	Assessment against the criteria
Criterion: The Corporation operated, maintained, and administered in the interests of safety an efficient pilotage service within the region under its responsibility.		
Dispatching processes	The Corporation documented its dispatch processes. The Corporation formalized its processes to ensure ongoing availability of its dispatching system through its Business Continuity Plan, which was documented in 2016 and approved in 2017. The plan included business resumption and disaster recovery procedures.	
Certificate holders monitoring process	The Corporation had a process to ensure that certificate holders were still meeting the requirements of the *General Pilotage Regulations* and the *Great Lakes Pilotage Regulations*. **Weakness** The Corporation did not have a process in place to monitor the validity of pilotage certificates from March 2013 to February 2015. As of June 2017, the Corporation was still not up to date in its monitoring, but it was clearing its backlog.	
Canadian vessels transit monitoring process	The Corporation reported that it started to monitor Canadian vessels subject to compulsory pilotage at the beginning of the 2016 navigation season to ensure that Canadian vessels subject to compulsory pilotage were under the conduct of a valid certificate holder when the service of a pilot was not requested. **Significant deficiency** The Corporation was not able to justify its monitoring frequency and coverage.	
Safety measures for pilot boarding and disembarking	The Corporation documented the pilot transfer process. The Corporation had a committee in place to discuss employee health and safety issues. The Corporation adopted measures associated with the safety of pilots using pilot boats.	

Legend—Assessment against the criteria

Met the criteria

Met the criteria, with improvement needed

Did not meet the criteria

Exhibit 7 Planning, delivery, and monitoring and reporting of pilotage services (continued)

Systems and practices	Key findings	Assessment against the criteria
Criterion: The Corporation monitored and reported on the delivery of pilotage services.		
Operational performance monitoring and reporting	The Corporation monitored key operational results and reported on them to management and the Board in a timely manner. The Corporation compared financial operational results with the budget, explained the variances identified on a monthly basis, and reported on them at each Board meeting.	✓
Licensing, training, and development of pilots	Processes were in place to ensure that pilots and apprentice pilots were medically and physically fit, and had the competencies and qualifications required by the *General Pilotage Regulations* and *Great Lakes Pilotage Regulations*. The Corporation had a training program in place for apprentice pilots to acquire and develop competencies needed to carry out pilotage duties. The Corporation also had a training plan in place for licensed pilots.	✓
Performance management of pilots	The Corporation documented the performance management process for its pilots. **Weakness** The Corporation did not entirely follow the process that it had established for managing pilot performance.	!

Legend—Assessment against the criteria

✓ Met the criteria

! Met the criteria, with improvement needed

– Did not meet the criteria

50. ***Weakness—Designation of areas and vessel classes subject to compulsory pilotage.*** The Corporation did not follow the recommendation of the Canadian Transportation Agency to conduct a review every five years to identify changes in factors and circumstances that might affect the designation of compulsory pilotage areas. For example, factors such as technology, ship size and type, and traffic patterns can change, which can introduce new risks or eliminate previously identified risks. In addition, the Corporation's role as regulator involved reviewing factors that might affect navigational risks and that could lead to a change in the vessel classes subject to compulsory pilotage. The Corporation had not established the frequency at which it would conduct such a review. The Corporation last reviewed vessel classes in 2007.

51. This weakness matters because shifts in the risk environment could affect navigation safety and the need to review the necessity of having compulsory pilotage in a certain area or for a particular class of ship.

52. **Recommendation**. The Corporation should conduct and document every five years reviews of the compulsory pilotage areas under its responsibility. The Corporation should also conduct and document periodic reviews of ships that should or should not be subject to compulsory pilotage.

The Corporation's response. *Agreed. In the second quarter of 2018, the Corporation will develop a process for a systematic and periodic review of the compulsory pilotage areas under its responsibility so as to comply with the Canadian Transportation Agency's recommendations, and of ships that should or should not be subject to compulsory pilotage.*

53. ***Weakness—Certificate holders monitoring process***. The Corporation reported that a complete process to monitor the validity of pilotage certificates was not put in place until February 2015, which was almost two years after 462 certificates were issued under the exemption provision of the *Great Lakes Pilotage Regulations*. At the time of our testing in April 2017, the Corporation was not up to date in its monitoring, but at the end of June 2017, it was clearing its backlog. As of that date, 127 certificates had been cancelled and 18 others had been suspended because the holders did not meet the requirements of the Regulations (see Exhibit 6).

54. This weakness matters because the Corporation was not up to date in its monitoring of the validity of pilotage certificates. Therefore, it was not certain that all certificate holders maintained their qualifications to ensure the safe passage of ships in compulsory pilotage areas.

55. **Recommendation**. The Corporation should continue to perform monitoring on an ongoing basis to ensure that certificate holders still meet the requirements of the *Great Lakes Pilotage Regulations*.

The Corporation's response. *Agreed. Since July 2017, the Corporation has eliminated its backlog and has been ensuring that it maintains the monitoring of certificate holders in compliance with the* Great Lakes Pilotage Regulations.

56. ***Significant deficiency—Canadian vessels transit monitoring process***. We found a significant deficiency in the Corporation's monitoring of the transits of Canadian vessels. Monitoring ensured that a Canadian ship subject to compulsory pilotage was under the conduct of a valid certificate holder when the service of a pilot was not requested. We found that the Corporation did not consider the number of transits in the Great Lakes to justify how often it monitored transits (frequency) and how many transits it monitored, in which area and for which period (coverage). For the first three years after introducing pilotage certificates, the Corporation reported that it did not monitor transits. Once it began monitoring in early 2016, it did not monitor transits daily during the 2016 and 2017 navigation seasons as it had planned. Based on information provided by the Corporation, between 1 July 2016

and 30 June 2017, monitoring took place on only 81 days. In one instance, a licensed pilot had to board a ship because there were not enough valid certificate holders for the compulsory pilotage area considering the mandatory rest period.

57. This significant deficiency matters because without the data on the number of Canadian vessel transits, the Corporation was not able to justify that the monitoring it performed was effective to mitigate the safety risks in the Great Lakes region.

58. **Recommendation**. The Corporation should ensure that its monitoring frequency and coverage are sufficient and supported by the number of transits of Canadian vessels. It should also document the justifications for its decisions.

The Corporation's response. *Agreed. For the start of the 2018 navigation season, the Corporation will review its monitoring control to consider the number of Canadian vessel transits in the determination of the testing frequency and the coverage, and it will enhance its documentation on decisions made.*

59. ***Weakness—Performance management of pilots***. The Corporation did not fully manage the performance of pilots according to the process that it had established through its directive on pilot quality assurance. During the period covered by the audit, the Corporation had not put in place the training committee responsible for completing pilot evaluations, for issuing recommendations to pilots, and for obtaining pilots' comments. For the five pilots we selected, we examined whether their evaluations had been conducted according to the documented process. We found that all five evaluations had not been provided to the pilots or signed by them. We also found that three evaluations had not been documented on a timely basis. However, we found that the five pilots undertook simulator training during which they were evaluated on their competencies, in accordance with the training plan in place for licensed pilots.

60. This weakness matters because the process was established to assess a pilot's competence and quality of service. Timely discussions with pilots are important to recognize good performance, identify unsatisfactory performance, and take appropriate actions as needed.

61. **Recommendation**. The Corporation should ensure that the performance management of pilots is performed according to its directive on pilot quality assurance.

The Corporation's response. *Agreed. Starting in 2018, the Corporation will ensure that the performance management of pilots is fully performed in accordance with the directive on pilot quality assurance.*

Conclusion

62. In our opinion, based on the criteria established, there were significant deficiencies in the Great Lakes Pilotage Authority's Board oversight and appointments, and in its process for monitoring the transits of Canadian vessels, but there was reasonable assurance there were no significant deficiencies in the other systems and practices that we examined. We concluded that, except for these significant deficiencies, the Corporation maintained its systems and practices during the period covered by the audit in a manner that provided the reasonable assurance required under section 138 of the *Financial Administration Act*.

About the Audit

This independent assurance report was prepared by the Office of the Auditor General of Canada on the Great Lakes Pilotage Authority. Our responsibility was to express

- an opinion on whether there is reasonable assurance that during the period covered by the audit, there were no significant deficiencies in the Corporation's systems and practices that we selected for examination; and
- a conclusion about whether the Corporation complied in all significant respects with the applicable criteria.

Under section 131 of the *Financial Administration Act* (FAA), the Great Lakes Pilotage Authority is required to maintain financial and management control and information systems and management practices that provide reasonable assurance that

- its assets are safeguarded and controlled;
- its financial, human, and physical resources are managed economically and efficiently; and
- its operations are carried out effectively.

In addition, section 138 of the FAA requires the Corporation to have a special examination of these systems and practices carried out at least once every 10 years.

All work in this audit was performed to a reasonable level of assurance in accordance with the Canadian Standard for Assurance Engagements (CSAE) 3001—Direct Engagements set out by the Chartered Professional Accountants of Canada (CPA Canada) in the CPA Canada Handbook—Assurance.

The Office applies Canadian Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting the audit work, we have complied with the independence and other ethical requirements of the relevant rules of professional conduct applicable to the practice of public accounting in Canada, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

In accordance with our regular audit process, we obtained the following from the Corporation's management:

- confirmation of management's responsibility for the subject under audit;
- acknowledgement of the suitability of the criteria used in the audit;
- confirmation that all known information that has been requested, or that could affect the findings or audit conclusion, has been provided; and
- confirmation that the audit report is factually accurate.

Audit objective

The objective of this audit was to determine whether the systems and practices we selected for examination at the Great Lakes Pilotage Authority were providing it with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively as required by section 138 of the *Financial Administration Act*.

Scope and approach

Our audit work examined the Great Lakes Pilotage Authority. The scope of the special examination was based on our assessment of the risks that the Corporation faces that could affect its ability to meet the requirements set out by the *Financial Administration Act*.

As part of our examination, we targeted a selection of items, such as risk mitigation strategies and pilots' performance evaluations, based on risks and professional judgment to determine whether systems and practices were in place and functioning as intended.

We also used random sampling in order to assess the effectiveness of systems and practices such as the certificate holders monitoring process.

We also interviewed members of the Board of Directors, senior management, and other employees of the Corporation. We observed some meetings of the Board and its committees during the period covered by the audit.

The systems and practices selected for examination for each area of the audit are found in the exhibits throughout the report.

In carrying out the special examination, we did not rely on any internal audits.

Sources of criteria

The criteria used to assess the systems and practices selected for examination are found in the exhibits throughout the report.

Corporate governance

20 Questions Directors Should Ask about Risk, Canadian Institute of Chartered Accountants, 2006

Meeting the Expectations of Canadians: Review of the Governance Framework for Canada's Crown Corporations, Treasury Board Secretariat, 2005

Internal Control—Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, 2013

Corporate Governance in Crown Corporations and Other Public Enterprises—Guidelines, Department of Finance and Treasury Board, 1996

Practice Guide: Assessing Organizational Governance in the Public Sector, The Institute of Internal Auditors, 2014

Performance Management Program for Chief Executive Officers of Crown Corporations—Guidelines, Privy Council Office, 2016

Strategic planning, and performance measurement, monitoring, and reporting

20 Questions Directors Should Ask about Risk, Canadian Institute of Chartered Accountants, 2006

Meeting the Expectations of Canadians: Review of the Governance Framework for Canada's Crown Corporations, Treasury Board Secretariat, 2005

Guidelines for the Preparation of Corporate Plans, Treasury Board Secretariat, 1996

Corporate Governance in Crown Corporations and Other Public Enterprises—Guidelines, Department of Finance and Treasury Board, 1996

Recommended Practice Guideline 3, Reporting Service Performance Information, International Public Sector Accounting Standards Board, 2015

Risk management

20 Questions Directors Should Ask about Risk, Canadian Institute of Chartered Accountants, 2006

Internal Control—Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, 2013

Corporate Governance in Crown Corporations and Other Public Enterprises—Guidelines, Department of Finance and Treasury Board, 1996

Planning, delivery, and monitoring and reporting of pilotage services

Ultimate HR Manual, Human Resource Professionals Association and CCH

Policy on Learning, Training, and Development, Treasury Board, 2006

Internal Control—Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, 2013

Directive on Performance Management, Treasury Board, 2014

Guidelines for the Preparation of Corporate Plans, Treasury Board Secretariat, 1996

A Guide to the Project Management Body of Knowledge (PMBOK® Guide), fourth edition, Project Management Institute Inc., 2008

Plan-Do-Check-Act management model adapted from the Deming cycle

Pilotage Act

General Pilotage Regulations

Great Lakes Pilotage Regulations

Great Lakes Pilotage Tariff Regulations

Financial Administration Act

Period covered by the audit

The special examination covered the period between 1 July 2016 and 30 June 2017. This is the period to which the audit conclusion applies. However, to gain a more complete understanding of the significant systems and practices, we also examined certain matters that preceded the starting date of the special examination.

Date of the report

We obtained sufficient and appropriate audit evidence on which to base our conclusion on 15 November 2017, in Ottawa, Canada.

Audit team

Principal: Nathalie Chartrand
Director: Élisabeth de Passillé

Stéphane Arbour
Chantal Archambault
Elaine Grout-Brown
Geneviève Hivon

List of Recommendations

The following table lists the recommendations and responses found in this report. The paragraph number preceding the recommendation indicates the location of the recommendation in the report, and the numbers in parentheses indicate the location of the related discussion.

Recommendation	Response
Corporate management practices	
25. The Corporation should adopt a consistent approach for declaring conflicts of interest and ensure that it properly documents the actions taken to manage these conflicts. **(22–24)**	**The Corporation's response.** Agreed. The Board members of the Corporation will continue to submit written declarations annually. Starting in 2018, based on the declarations by individual Board members, an assessment will be made to identify real, potential, and apparent conflicts of interest for various matters. The Governance and Human Resources Committee and the Chair of the Board will review these assessments to determine the appropriate action to take (such as abstaining from voting or recusing from the discussion) for the matter in question. These assessments will be reviewed prior to each Board and Committee meeting.
28. The Corporation should ensure that the Audit Committee has the necessary information and supporting analysis to approve and perform its oversight role on the Chief Executive Officer's travel, hospitality, conference, and event expenses. **(22, 26–27)**	**The Corporation's response.** Agreed. Starting in 2018, the management of the Corporation will enhance its current process by providing the Audit Committee with some additional tools to assist in approving the Chief Executive Officer's travel and hospitality expenditures. The focus will be on providing documented justifications, as needed, to support compliance with the Corporation's directive on travel and hospitality expenditures.
29. The Corporation should update its directive on travel and hospitality expenditures to address the concern raised related to spousal expenses and should strengthen its control and documentation procedures for the management of travel and hospitality expenditures. **(22, 26–27)**	**The Corporation's response.** Agreed. In early 2018, the Corporation will update its directive on travel and hospitality expenditures to properly reflect its commitment to the sound management of public funds. Starting in 2018, the Corporation will implement some additional tools to strengthen its controls for management's travel and hospitality and its documentation for justifying management's travel and hospitality expenditures.
30. The Corporation should comply with the requirements of the *Financial Administration Act* to conduct internal audits. **(22, 26–27)**	**The Corporation's response.** Agreed. The Corporation has resolved this oversight, as an internal audit is planned to start in November 2017 with a final report to be presented to the Audit Committee in February 2018.
33. The Corporation should continue to engage with the Minister of Transport on the need for sufficient and timely appointments to the Board, continue to provide the Minister with profiles of potential candidates, and reinforce the need for staggered terms of office. **(22, 31–32)**	**The Corporation's response.** Agreed. The Corporation will continue to engage with the Minister of Transport in a manner that is consistent with the new process established by the government for Governor in Council appointments. The Corporation will also continue to engage with the Minister on the need for sufficient and timely appointments to the Board and assist in the process to find potential candidates with the skill sets needed for an effective Board.

Recommendation	Response
38. The Corporation should report to the Board on the implementation of all mitigation strategies associated with the Corporation's identified corporate and operational risks. **(35–37)**	**The Corporation's response.** Agreed. Starting in 2018, the Corporation will enhance its reporting to the Board to ensure that the implementation status of all mitigation strategies associated with the identified corporate and operational risks are captured in a consistent and standardized manner.
Management of pilotage services	
52. The Corporation should conduct and document every five years reviews of the compulsory pilotage areas under its responsibility. The Corporation should also conduct and document periodic reviews of ships that should or should not be subject to compulsory pilotage. **(49–51)**	**The Corporation's response.** Agreed. In the second quarter of 2018, the Corporation will develop a process for a systematic and periodic review of the compulsory pilotage areas under its responsibility so as to comply with the Canadian Transportation Agency's recommendations, and of ships that should or should not be subject to compulsory pilotage.
55. The Corporation should continue to perform monitoring on an ongoing basis to ensure that certificate holders still meet the requirements of the *Great Lakes Pilotage Regulations*. **(49, 53–54)**	**The Corporation's response.** Agreed. Since July 2017, the Corporation has eliminated its backlog and has been ensuring that it maintains the monitoring of certificate holders in compliance with the *Great Lakes Pilotage Regulations*.
58. The Corporation should ensure that its monitoring frequency and coverage are sufficient and supported by the number of transits of Canadian vessels. It should also document the justifications for its decisions. **(49, 56–57)**	**The Corporation's response.** Agreed. For the start of the 2018 navigation season, the Corporation will review its monitoring control to consider the number of Canadian vessel transits in the determination of the testing frequency and the coverage, and it will enhance its documentation on decisions made.
61. The Corporation should ensure that the performance management of pilots is performed according to its directive on pilot quality assurance. **(49, 59–60)**	**The Corporation's response.** Agreed. Starting in 2018, the Corporation will ensure that the performance management of pilots is fully performed in accordance with the directive on pilot quality assurance.